

# *California Investment Guide*

An Overview of Advantages,  
Assistance, Taxes & Permits

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July 2011



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### Business Climate

California is rising to the challenge of today's difficult economy. A quick review of key initiatives and actions make it clear that California has entered a new era for business investment and job creation:

- In the first quarter of 2011, California saw an increase of 90,600 jobs, beating the increase of 82,600 for all of 2010.
- In 2010, California produced \$1.9 trillion in goods and services equating to 13% of the U.S. gross domestic product.
- In terms of its overall size the clean economy in California ranks 1st among the 50 states and the District of Columbia with over 300,000 clean jobs; according to the Brookings Institution.
- In CNBC's 2010 *Top States for Business*, California ranked #1 for Technology & Innovation and Access to Capital.
- California ranked #1 in Site Selection Magazine's Top Sustainable State for 2011 and 2010.
- California remains the #1 state for venture capital (VC) investment, receiving four times more venture capital (as a share of gross state product) than the national average.
- California boasts the most companies (16) on Fortune's *100 Best Companies to Work For - 2011*. Additionally, California is home to the second most Fortune 500 companies in the country with 53.
- According to *BusinessWeek*, nine of the world's '50 Most Innovative Companies' are based in California, including the top two, Apple (#1) and Google (#2).
- California's strategic growth plan forecasts an ambitious expansion of California's highways, freeways, railways, aviation, and electrical infrastructure, investments that will create immediate jobs and pave a foundation for long-term economic growth.
- Public-private partnerships (p3) and design-build authority are saving businesses time and money. By tapping into private money for needed transportation projects, California creates more jobs and investment opportunities at greater savings to the taxpayer.
- AB 32, California's landmark global warming bill, establishes a first-in-the-world comprehensive program to achieve cost-effective reductions in greenhouse gases through energy conservation and renewable energy production, effectively making California a hotbed of renewable energy and energy efficiency innovations. In November 2010, voters overwhelmingly reaffirmed California's commitment to clean energy by rejecting a ballot measure challenging AB 32.
- Streamlining environmental permits will generate jobs and economic activity related to the construction, architectural, materials, and finance industries. The California Air Resources Board is working with regional planning agencies to simplify the CEQA review process for thousands of new projects that reduce greenhouse gases.
- California provides greater flexibility for businesses to leverage the advantage of tax credits. Since January 2010, businesses are able to share business tax credits among a related group of affiliate or subsidiary companies (known as unitary utilization). This allowance provides California companies the freedom to allocate tax credits within their family of companies.

## California's Advantages

California offers unparalleled value to companies seeking the optimal business location. Our critical mass of business services, intellectual capital, financial acumen, transportation systems and market access enhance the corporate mission and make California the most efficient place to do business in the world. Why invest or create jobs in California? Because the long-term outlook for our economy and business climate is as sunny as the legendary climate.

### Innovation and Intellectual Capital

California leads the nation in trends and innovation. New ideas are a way of life here. Californians have a strong need to express themselves and a long history of free thinkers conceiving the inconceivable. California supports creativity with a superior educational system and job training that produces an unrivaled and highly skilled labor force.

Over 2.4 million students are enrolled in 416 public and private colleges and universities with over 200,000 college graduates per year. California possesses the nation's highest concentration of engineers, scientists, mathematicians and skilled technicians.

Seven of the top 20 engineering schools are in California. Fifty-seven California companies are ranked among *Fortune Magazine's* prestigious FORTUNE 500 list of America's largest corporations ranked within the states. California is a major center for design of automobiles, furniture, apparel, software, electronics, telecommunications services, computers and semiconductors.

California boasts nearly 621 members of the National Academy of Sciences and 111 Nobel Laureates.

### Nation's Leading High-Tech State

California's culture embraced technology as part of its founding DNA. Technological innovation powers the California economy. We're home to nearly 1 million high-tech workers, larger than any other state, and one-eighth of *all* U.S. high-tech workers.

High-tech exports totaled \$48 billion, ranked first nationwide, and high-tech goods represent nearly 44% of the state's annual exports.

California leads the nation in several strategic high-tech industry segments, comprising between 20-60% of U.S. market share in electronic components, commercial aerospace, medical instruments, biotechnology and transportation.

California has been the #1 manufacturing state since 1977. In many ways, California's technology fortune has driven the nation's economic future.

California leads the nation with 4 of "The top-ten rankings for the preeminent high-tech metros in North America", a study conducted by the Milken Institute.

In addition to leading the country in high-tech, California also leads in 'Green Tech' and 'Green Collar Jobs.' California is home to many types of renewable energies. Solar, wind and bio diesel are just a few of the technologies that are being researched, developed, and manufactured in the Golden State.

California also topped the 2010 CNBC's *America's Top States for Business Rankings* for Technology and Innovation

## Research, Capital and Access to Financial Resources

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California leads the nation in research and development (R&D) and benefits from receiving half of the nation's venture capital (VC) investment. In 2009, California companies received more than \$8.8 billion or 50% of all VC dollars invested in the U.S. Top sectors receiving VC funding are software, telecommunications, biotechnology, medical devices and semiconductors.

California is home to more than 2,000 companies and more than 100 universities and private non-profit research organizations that are engaged in biomedical R&D and manufacturing. The biomedical industry is one of the most recession-resilient sectors in the state's economy, accounting for 274,000 California jobs. Among the state's high-tech industries, only the information technology sectors (computer and Internet-related services and computer and peripheral equipment industries) employ more people than the biomedical industry.

California ranked 1<sup>st</sup> in "Access to Capital" in CNBC's *America's Top States for Business Rankings* for 2010.

In 2009, California's biomedical companies completed 252 deals valued at \$2.6 billion, down from 302 deals worth \$3.5 billion in 2008 but still attracting more venture capital investment than any other sector in the state. California received the greatest amount of National Institutes of Health (NIH) funding of any state, receiving 7,228 grants totaling \$3.15 billion in 2008. California's share of funding was approximately 40% more than the second largest grantee, Massachusetts, which received \$2.2 billion. California ranks first in nanotechnology companies, holders of over 200 patents. More research and VC funding for this emerging industry is invested here than anywhere else. The Silicon Valley has established a Blue Ribbon Task Force on Nanotechnology and the National Science Foundation predicts industry revenue will reach \$1 trillion by 2015.

R&D expenditures at universities and colleges totaled \$6.49 billion in 2006, while Industrial R&D exceeded \$58.4 billion, ranked first in the nation.

California offers a 15% R&D tax credit for in-house research and 24% for contract research, the highest in the nation.

## Eighth-Largest Market in the World

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California has the largest, most robust and most resilient economy in the United States. The Golden State produced \$1.9 trillion in goods and services in 2010, a 1.8% increase over 2009. Our economy represents 13% of United States gross domestic product.

Our population exceeded 36.7 million (July 2008) and is growing dramatically in size and diversity. It represents 12% of U.S. population, one out of every nine persons.

California is the number one state for attracting foreign direct investment. The state has the largest consumer markets for high technology, biotechnology, food and agriculture, apparel, entertainment and is a bellwether for the nation's economy.

Currently, only three minority markets at the state level exceed \$100 billion in buying power annually, and two of them are in California. Hispanic buying power comprises \$228 billion in California and California's Asian consumer market totals \$150 billion.

## Pacific Gateway

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California is globally connected with world-class infrastructure. More than 15,000 miles of highways and freeways carry billions of tons of freight per year. Twelve cargo airports carry more than 3 million tons of freight per year and California leads the nation with eleven cargo seaports. The ports of Los Angeles (#1), Long Beach (#2), and Oakland (#5) are among the busiest in the country.

California has 17 Foreign Trade Zones (FTZ) which allow tenants to delay or forgo import and export duties on goods and raw materials until they enter U.S. commerce. If the goods are warehoused in an FTZ, then exported to other countries, no duties are paid at all. In addition, California has 42 Enterprise Zones (EZ) and 8 Local Agency Military Base Recovery Areas (LAMBRA).

Twenty-five freight railroads in California operate over 5,000 miles of track to form an integral part of the global transportation network. Mixed freight, food, glass and stone, chemicals and primary metal products make up the bulk of the originated and terminated tonnage carried by the extensive railroad network.

California is a global export leader with over \$134 billion in sales of goods and services. International-related commerce accounts for a large percentage of the state's economy. Exports from California to 228 foreign markets accounted for 11% of total U.S. exports. California's top trading partners are Mexico, Canada, Japan, China and South Korea. California trade and exports translate into high-paying jobs for over one million Californians.

## California Lifestyle

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Californians lead an enviable life that for the last five years ranks #1 in the Harris Poll asking respondents to name the number one most desirable state in which to live. Residents enjoy one of the highest life expectancies in the country, a median age of 34.7 years and receive the best health care. Californians enjoy natural beauty right in their backyards, featuring towering forests, snow-capped mountains, beautiful beaches and serene deserts.

The Golden State is home to over 1,000 golf courses, 45 snow resorts, 21 professional sports teams, 31 national parks, 280 state parks, 134 wilderness areas, 1,100 miles of coastline, and over 900 wineries.

California leads the nation in tourism with over 200 million visitors and \$95.1 billion in revenues in 2010.

## Innovation Hubs

In an effort to harness and enhance California's innovative spirit, the State of California launched a forward-thinking Innovation Hub (iHub) initiative in early 2010. The Governor's iHub initiative seeks to improve the state's national and global competitiveness by stimulating partnerships, economic development and job creation around specific research clusters throughout the state.

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### What is an iHub?

- iHubs are operated by local collaboratives comprised of local government entities, universities, businesses, venture capitalist networks, economic development organizations and non-profit organizations.
- Specifically they target young, innovative companies that have been in business for less than eight years in a technology cluster identified by the consortium.
- They are anchored by at least one major university or research center/institution, at least one economic development corporation and typically contain assets such as research parks, technology incubators, universities, community colleges, business accelerators and federal laboratories.
- Certified iHubs are supported by a UC Institute for Science and Innovation.
- iHubs are designated for a period of five years.

### Initiative Impact

- The growing statewide network of innovation hubs provides the participants with an unprecedented opportunity to interact and *share best practices* on a scale which looks beyond regional boundaries.
- By providing a direct link to the Governor's Office of Economic Development and encouraging the development of a stronger relationship with local government entities within various regions, the initiative *helps to remove barriers to public-private collaboration* needed to commercialize technology.
- The application process forces *the formation of strong regional partnerships among all of the players involved in the commercialization of innovation* in a given region by insisting that a competitive application includes at least one representative from all of the valued entities.
- The open communication channels created through the initiative allow the iHubs to *leverage assets* (national laboratories, technology incubators, business accelerators) in and among regions.
- The state-issued designation *draws attention to the clusters that exist within a given region* as well as the innovation happening within that region, *and increases the competitiveness of the hubs* both when applying for grant opportunities on an individual basis and as a consortium.
- A mature iHub will be able to match-up players at various stages of the innovation process (e.g. start-up companies and venture capitalists), thereby *providing an innovation platform* for research clusters, start-up companies, government entities, business groups and venture capitalists.
- The iHub network provides an unprecedented opportunity for experts in the innovation arena to *speak as a united force when advocating for policy and legislation* on both the state and federal levels.

More information is available at [business.ca.gov](http://business.ca.gov)

## Investment Assistance

California Business Investment Services (CalBIS) assists companies and investors interested in employing Californians. Major state-level incentives are described in this section. Note that many incentives are site driven and/or negotiated with local government on a case-by-case basis or under an existing local economic development policy. As needed, “A-Teams” comprised of state and local officials are assembled to bring public and private resources together to assist investors or companies interested in the Golden State.

## Targeted Tax Credits

### Economic Development Areas

The state offers four types of Economic Development Areas (EDAs): Enterprise Zones (EZ); Local Agency Military Base Recovery Areas (LAMBRA); Manufacturing Enhancement Areas (MEA); and, Targeted Tax Areas (TTA) in urban and rural areas.

#### Enterprise Zones

Businesses located within the boundaries of an EZ are eligible for tax credits.

The first major EZ tax credit is equivalent to the sales and use tax paid on the first \$1,000,000 of Personal Income Tax or Corporations can earn sales tax credits on purchases of \$20 million per year of qualified machinery and machinery parts. Qualified machinery is machinery or parts used to:

- Manufacture, process, fabricate, or otherwise assemble a product.
- Produce renewable energy resources.
- Control air or water pollution.

The definition of “qualified property” has been expanded to include data processing and communications equipment including, but not limited to, computers, CAD systems, copy machines, telephones systems and faxes. Equipment must be purchased in California unless equipment of comparable price and quality cannot be found in California.

The second major EZ benefit takes the form of a credit equal to a percentage of the wages paid to a qualified employee. The credit is based on the lesser of the actual hourly wage or 150% of the state-established minimum wage.

The credit is provided over a five-year period with 50% of the wages creditable in the first year of employment, 40% the second year, 30% the third year, 20% the fourth year, and 10% the fifth year. If the employee stays with the company for the entire 5-year period, the company receives credits totaling nearly \$37,440 per qualified employee. If the employee is terminated prior to 270 days of employment, the credit is recaptured.

Other EZ benefits that may apply in certain cases include:

- A 15-year carryover of up to 100% of net operating losses.
- Expensing of certain depreciable property.
- Lender interest income from loan to zone businesses is deductible.

<http://www.hcd.ca.gov/fa/cdbg/ez>

#### LAMBRAs, MEAs, and TTAs

LAMBRA zones are a companion to EZs. The most notable differences in incentives include enhanced equipment purchase eligibility under the sales and use tax credit; an annual wage limitation of \$2 million per year under the hiring tax credit; and redefinition of qualified employees to include displaced military or civilian employees of the former base.

<http://www.hcd.ca.gov/fa/cdbg/ez/lambra/>



## Research and Development Tax Credit

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Designed to encourage businesses to increase their basic research and development activities in California, the research and development tax credit allows companies to receive a 15% credit against their bank and corporation tax liability for qualified in-house research expenses, and a 24% credit for basic research payments to outside organizations. This tax credit is applied to a tax payer's state tax liability.

The federal tax credit may be collected for the same research activity.

Qualified research expenses generally include wages, supplies and contract research costs. To qualify, a taxpayer's research must be conducted within California and include basic or applied research of scientific inquiry, original investigation for the advancement of scientific or engineering knowledge or improved function of a business component.

The research activity must be conducted in California to qualify for the credit.

<http://www.ftb.ca.gov/forms/misc/1082.pdf>

## Net Operating Loss Carryover

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California tax law allows businesses that experience a loss for the year to carry this loss forward to the next year in order to offset income in the following years.

New businesses can carry over 100% of their losses for 20 years if the loss is in their first year of operation.

<http://www.ftb.ca.gov/forms/misc/1083.pdf>

## Empowerment Zones

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The federal government has designated sections of several California communities as Renewal Communities, Empowerment Zones and Enterprise Communities (RC, EZs and ECs). The cities of Fresno, Los Angeles, Santa Ana, San Francisco, Orange Cove, Parlier, and the counties of Imperial and Riverside have designated RCs, EZs or ECs. Benefits to businesses locating or expanding in these areas include:

- Employer wage credits of 20% for the first \$15,000 in wages paid to an individual who resides in the EZ up to \$3,000.
- Section 179 deduction allowing businesses to deduct all or part of the cost of eligible property (machinery, furniture, equipment, computers) up to an additional \$20,000.

- Availability of low interest rate tax-exempt private activity bonds to finance industrial projects typically between \$1-3 million (some zones have substantially larger limits), often with fewer restrictions than those normally associated with tax-exempt bond financing.
- Possible city business tax exemption.
- Postponement of capital gains on the sale of EZ/EC assets.

<http://www.hud.gov/offices/cpd/economicdevelopment/programs/rc/tour/ca/>

## Foreign Trade Zones

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California's Foreign Trade Zones (FTZ) are located in San Francisco, San Jose, Long Beach, Oakland, West Sacramento, San Diego, Palmdale, Los Angeles, Port Hueneme, Merced/Madera/Fresno counties, Stockton, Palm Springs, Santa Maria, Victorville, Eureka and Imperial, Butte and Riverside counties.

FTZs are secured areas legally outside of U.S. customs territory usually located in or near customs points of entry. FTZs allow entry of foreign or domestic merchandise without formal customs entry or government excise taxes.

Merchandise entering a zone may be stored, tested, sampled, relabeled, repackaged, displayed, repaired, manipulated, mixed, cleaned, assembled, manufactured, salvaged, destroyed or processed. Products exported from or imported into FTZs are excluded from customs duty and excise taxes until the time of transfer from the FTZ.

<http://www.ia.ita.doc.gov/ftzpage>.

## New Markets Tax Credits

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The New Markets Tax Credit (NMTTC) Program permits taxpayers to receive a credit against federal income taxes for qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year period. In each of the first three years, the investor receives a credit equal to 5% of the total amount paid for the stock or capital interest at the time of purchase.

For the final four years, the value of the credit is 6% annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period. NMTTCs will be allocated annually by the Fund to CDEs under a competitive application process. As of 2007, allocates in California include Border Communities Capital Company, LLC of Solana Beach; Clearinghouse CDFI of Lake Forest; Impact Community Capital CDE, LLC of San Francisco; KHC New Markets CDE, LLC Series A of Carlsbad; Lenders for Community Development of San Jose; and WNC National Community Development Advisors, LLC of Costa Mesa.

<http://www.cdfifund.gov/index.asp>

## Film and TV Production Tax Credit

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Film and TV Production Tax incentives will lure television and movie production back to California where it belongs:

- For the next five fiscal years, the California Film Commission will certify and administer a tax credit for new production in the state or production that returns to California from another state. The credit will be equal to 20% of expenditures in the state related to the film production, and 25% for production returning to the state and independent films. It will be capped at \$100 million per year.

- This is about much more than actors and directors – it's a benefit to the small businesses such as make-up artists and caterers who rely on film production for their business.

[http://www.film.ca.gov/res/docs/pdf/CA-Film-Tax-Credit-Agreed-Upon-Procedures\\_100109.pdf](http://www.film.ca.gov/res/docs/pdf/CA-Film-Tax-Credit-Agreed-Upon-Procedures_100109.pdf)

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### Job Referral and Placement

California's Employment Development Department (EDD) works with businesses to access the state's entire workforce, as well as to coordinate recruitment activities with local community-based job training and placement organizations called "One-Stop Career Centers." EDD, in cooperation with the One-Stop network, will help to customize and deliver pre-employment and on-the-job training; recruit, screen, and assess workers for specific skills sets; and assist employers to maximize California Enterprise Zone and federal hiring tax credits.

[http://www.edd.ca.gov/Jobs\\_and\\_Training/pubs/osfile.pdf](http://www.edd.ca.gov/Jobs_and_Training/pubs/osfile.pdf)

Also, through its CalJOBS<sup>SM</sup> system, EDD's Job Service offers a statewide network that provides an instant link between employers and job seekers anywhere in California. This network provides employers with quick access to the largest available pool of job-ready applicants.

<http://www.caljobs.ca.gov/>

### Work Opportunity Tax Credit

The amount of the tax credit varies by target group. The tax credit for target groups A, B, C, D, E, G, and H is 40% of qualified first year wages up to \$6,000 if the individual is retained for at least 400 hours. If the individual is retained less than 400 hours but at least 120 hours a 25% tax credit is available on qualified first year wages up to \$6,000.

The exception is target group F (summer youth). The maximum amount of wages to which the tax credit may be applied shall not exceed \$3,000.

The tax credit for target group I, long-term family assistance recipient, is 40% of first year qualified wages up to \$10,000 and 50% of second year qualified wages up to \$10,000. The individual must be retained at least 180 days or 400 hours. In certain circumstances you may be able to claim either the 40% of \$6,000 tax credit or the 40% of \$10,000 tax credit.

[http://www.edd.ca.gov/Jobs\\_and\\_Training/WOTC\\_Target\\_Groups.htm](http://www.edd.ca.gov/Jobs_and_Training/WOTC_Target_Groups.htm)

### California Employment Training Panel

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A skilled workforce is key to a company's ability to remain competitive. The Employment Training Panel (ETP) assists employer efforts to effectively train workers and maintain skilled workforces capable of responding to changing business and industry needs.

ETP-funded training works because employers make decisions about their own training programs; training investments help companies become more profitable; and performance-based contracting ensures success.

ETP job training funds are available to all California manufacturing companies, companies that face out-of-state competition and businesses that are expanding or relocating to California from other states or countries.

In addition to the manufacturing industry, and California's small business employers, the Panel also prioritizes:

- \* Nanotechnology
- \* Biotechnology and Life Sciences
- \* Goods Movement and Transportation Logistics
- \* Aerospace and Defense
- \* Advanced Technology Information Services
- \* Multimedia/Entertainment
- \* Healthcare
- \* Construction
- \* Agriculture
- \* Renewables

For more information regarding ETP, visit their website at [www.etp.ca.gov](http://www.etp.ca.gov) or e-mail them at [edu@etp.ca.gov](mailto:edu@etp.ca.gov)

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## Financial Assistance

### Industrial Development Bonds

Industrial Development Bond (IDB) financing may be the most competitive financing option available for the acquisition of manufacturing facilities and equipment. IDBs provide a method for middle market manufacturers to access the private capital markets at tax-exempt rates. The IDB interest rate is significantly lower than bank financing because the interest paid to the investor is exempt from state and federal income tax, resulting in substantial savings to the borrower, depending on the amount financed.

The IDB issuance process can be pursued concurrently with the bank credit approval process. The entire process can be easily completed within 90 days and from the borrower's standpoint should not be much different than conventional financing. The most frequent source of delay is, in fact, the letter of credit bank's credit approval process.

The financing structure is fairly straightforward. A governmental entity will issue bonds and loan the proceeds to the company. The company's obligation to repay the loan is secured by a direct-pay Letter of Credit from a bank rated 'A' or better. The interest rate on the bonds is adjustable and is reset weekly by the underwriter in its capacity as remarketing agent.

IDBs can be issued by the California Infrastructure and Economic Development Bank (I-Bank), cities, counties, and joint powers authorities. IDBs do not constitute an obligation of either the state or the local government issuer.

The issuer's staff and the borrower's finance team of experienced professionals assist the business through each stage of the process. The finance team usually comprises a bond counsel, financial advisor (who assists in packaging and structuring the financing), letter of credit bank, underwriter, and trustee.

### IDB Guidelines:

- \$10 million: maximum amount that can be borrowed as a tax-exempt industrial development bond.
- \$20 million: limit on the company's capital expenditures for the three years before and after the bond issuance (intended to target the program to small and medium-sized manufacturers).
- Low interest rate: 20-30% below conventional financing rates.
- Primary business activity: manufacturing, processing, or fabrication. Examples include but aren't limited to: meat processing, vegetable dehydration, machine fabrication, car/truck parts manufacturing, wine-making, and lithographers. Distribution is not an eligible use.
- Primary use of bond funds: acquisition, construction, rehabilitation and equipping.
- Comprehensive funding: the funds can be used for construction and/or takeout to finance land, buildings and equipment.
- No prepayment penalty.
- Repayment: if the company qualifies for a conventional bank loan, it should be able to qualify for a bank Letter of Credit.
- Federal and state requirements: because the bond financing provides a 'benefit' to business, borrowers must meet certain public benefit criteria as well as general eligibility requirements.

The project financed by the bonds must meet certain public benefit criteria established by the California Debt Limit Allocation Committee (CDLAC) located in the California's Treasurer's Office, which include, among other things, the creation or retention of jobs. The IDB financing process can generally be completed within 150 days.

<http://www.ibank.ca.gov>

<http://www.treasurer.ca.gov>

## California Alternative Energy & Advanced Transportation Authority (CAEATFA)

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### Sales & Use Tax Exemptions for Clean Tech Manufacturing

California leads the world in environmental technology as the home to 10,209 green-tech companies and home base to the innovative minds and year-round sunshine that power the green technology industry. SB 71 allows California to maintain this competitive edge by expanding the range of projects which may be approved for a sales and use tax exclusion to include all green-tech manufacturers.

Under the SB 71 Program the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) approves sales and use tax exclusions (STE) for eligible projects on property utilized for the design, manufacture, production or assembly of advanced transportation technologies or alternative source – including energy efficiency – products, components or systems.

The SB 71 Program promotes the creation of California-based manufacturing, California-based jobs, and the reduction of greenhouse gases, air and water pollution, or energy consumption.

Businesses must apply for the sales and use tax exclusion through CAEATFA and once approved by the CAEATFA Board are able to receive a sales or use tax exclusion on qualified green-tech manufacturing property. Once approved by the Board, applicants will receive a resolution and written notice of their approval by CAEATFA.

Once an approved applicant has title of the qualified property (QP), but has not yet put the QP to functional use, the approved applicant will provide a list of QP purchased and convey title of that QP to CAEATFA, and CAEATFA will convey it back to the approved applicant. The conveyance of QP to CAEATFA and reconveyance back to the approved applicant must occur before the QP is put to functional use.

The Board of Equalization (BOE) oversees state sales and use tax issues and may be consulted during the SB 71 process.

<http://treasurer.ca.gov/caeatfa/sb71/index.asp>

<http://www.boe.ca.gov/sutax/gme.htm>

### Pollution Control Financing

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The California Pollution Control financing Authority (CPCFA) provides tax-exempt bond financing for pollution control projects. Their Tax-Exempt Bond Financing Program gives California businesses help with acquisition or construction of qualified pollution control, waste disposal, or waste recovery facilities, and the acquisition and installation of new equipment.

They also offer a Sustainable Communities Grant and Loan Program that assists communities implementing "smart growth strategies," and the CalReUSE Program that offers low-interest, forgivable loans to assist public and private partners in redeveloping contaminated "brownfields." The California Capital Access Program (CalCAP) helps small-business borrowers obtain loans.

<http://www.treasurer.ca.gov/cpcfafa/>

### Alternative and Renewable Fuel and Vehicle Technology Program (AB 118)

Assembly Bill 118 (Núñez, Chapter 750, Statutes of 2007) created the California Energy Commission's Alternative and Renewable Fuel and Vehicle Technology Program. The statute, subsequently amended by Assembly Bill 109 (Núñez, Chapter 313, Statutes of 2008), authorizes the Energy Commission to develop and deploy alternative and renewable fuels and advanced transportation technologies to help attain the state's climate change policies. The Energy Commission has an annual program budget of approximately \$100 million to support projects that:

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- Develop and improve alternative and renewable low-carbon fuels.
- Optimize alternative and renewable fuels for existing and developing engine technologies.
- Produce alternative and renewable low-carbon fuels in California.
- Decrease, on a full fuel cycle basis, the overall impact and carbon footprint of alternative and renewable fuels and increase sustainability.
- Expand fuel infrastructure, fueling stations, and equipment.
- Improve light-, medium-, and heavy-duty vehicle technologies.
- Retrofit medium- and heavy-duty on-road and non-road vehicle fleets.
- Expand infrastructure connected with existing fleets, public transit, and transportation corridors.
- Establish workforce training programs, conduct public education and promotion, and create technology centers.

The statute allows the Energy Commission to use grants, loans, loan guarantees, revolving loans, and other appropriate measures. Eligible recipients include: public agencies, private businesses, public-private partnerships, vehicle and technology consortia, workforce training partnerships and collaboratives, fleet owners, consumers, recreational boaters, and academic institutions. The Energy Commission must prepare and adopt an Investment Plan and convene an Advisory Committee to assist in preparing the Investment Plan.

<http://www.energy.ca.gov/altfuels/index.html>

**For more information, please contact:**

Alternative and Renewable Fuel &  
Vehicle Technology Program  
Fuels & Transportation Division  
California Energy Commission  
Phone: 916-654-4634  
E-mail: [AB118@energy.state.ca.us](mailto:AB118@energy.state.ca.us)

## Small Business Loan Guarantee

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### California Small Business Loan Guarantee

**Program:** Allows a business to not only acquire a loan it could not otherwise obtain, but to establish a favorable credit history with a lender so that the business may obtain future financing on its own.

**Eligible Applicants:** Any small business as defined by the U. S. Small Business Administration (typically businesses that employ one hundred people or less).

**Eligible Uses:** Proceeds must be used primarily in California and for any standard business purpose beneficial to the applicant's business, such as expansion into new facilities or purchase of new equipment.

**Guarantee Amount:** Guarantees can cover up to 90% of the loan amount, with the guaranteed portion of the loan not exceeding \$500,000. The guaranteed percentage varies and subject to negotiation between the FDC and the lender.

### Loan Information:

The term of the loan guarantee may extend up to seven years:

- Interest rates are negotiated between the borrower and the lender. The FDC may charge a guarantee fee of up to 2% for guarantee amounts up to \$150,000, and 3% for guarantee amounts over \$150,000, plus a documentation fee of \$250.
- Processing time takes three to five weeks, depending on how quickly the applicant provides the necessary information and documentation, and on the lender's responsiveness.
- Collateral is generally required, but each transaction is tailored to meet the borrower's financial situation.

<http://www.calbusiness.ca.gov/cedpgybfasblgp.asp>

## Market Development and Expansion Grant Program

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The Department of Conservation provides up to \$20 million annually to increase beverage container recycling in California and to improve processing and manufacturing with recycled aluminum, glass and plastic. It encourages projects that advance environmentally and economically sustainable containers, packaging and other products. The program supports research and development of new technologies and helps reduce greenhouse gas emissions by strengthening "green" industries in the state. Specific objectives include:

- Creating market opportunities for new sustainable products or packaging.

- Expanding market-related activities for existing recycled-content products.
- Improving the quality and supply of beverage container material feedstock for use in manufacturing sustainable products or packaging.
- Creating market opportunities for sustainable beverage packaging.

<http://www.conservation.ca.gov/dor/grants/Pages/rmdeg.aspx>



### Beverage Container Recycling Grant Program

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The Department of Conservation provides funding annually in the form of grants for beverage container recycling and litter reduction programs. The Department typically seeks projects that provide convenient beverage container recycling opportunities in California; however, the focus may change with each new solicitation.

Grant proposals are evaluated on criteria set forth in each year's Grant Solicitation. There are no restrictions on who can apply for the grants. For more information, visit the Department of Conservation's website at: <http://www.calrecycle.ca.gov/> or call 1-800-RECYCLE.

### Beverage Container Recycling Infrastructure Loan Guarantee Program

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The Department of Conservation provides continuous funding in the form of loan guarantees for up to \$10 million for capital expenditures for new infrastructure that would add recycling capacity, re-use and/or remanufacture beverage container materials into new products. Uses: equipment costs, building and facilities, rent and utilities, travel, contractual services, salaries, and benefits, other operating and non-operating costs.

Private companies, non-governmental organizations, governmental agencies, manufacturers and trade associations are eligible to apply. For more information, visit the Department of Conservation's website at:

<http://www.conservation.ca.gov/dor/Notices/Documents/LGPNNotice081707.pdf>

### Recycling Market Development Zone Revolving Loan Program

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The Recycling Market Development Zone (RMDZ) Revolving Loan Program makes capital available for California manufacturers located in RMDZs. The program provides direct loans to eligible businesses that manufacture recycled raw materials, produce new recycled products, or that reduce waste from the manufacture of a product. These loans promote market development for post consumer and secondary waste materials and

divert waste from non-hazardous California landfills. Funds may be used to acquire equipment, make leasehold improvements, purchase recycled raw materials and inventory, or acquire real property. Applicants may borrow a maximum of 75% of the cost of a project or \$2 million. Terms are generally 10 years and low interest rates are fixed.

<http://www.calrecycle.ca.gov/>

### SBA 504 Loans

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SBA (Small Business Administration) 504 loans are marketed, processed, closed and serviced by Certified Development Corporations (CDC). Through the SBA 504 program, CDCs provide up to 90% of fixed-asset financing costs. The second mortgage, long-term, fixed-rate financing nature of the program allows banks to participate in business expansion by reducing risk exposure. The benefit to the borrower is a lower down payment requirement (10%) and a longer-term, fixed-rate loan, which translates into reduced monthly payments.

The maximum SBA debenture is \$1,500,000 when meeting the job creation criteria or a community development goal. Generally, a business must create or retain one job for every \$50,000 provided by the SBA except for "Small Manufacturers" which have a \$100,000 job creation or retention goal.

Individual job goals can be somewhat flexible if the CDC's overall portfolio meets the requirements. At that point, community impact and public policy goals can be mitigating factors. Eligible 504 loan uses include the purchase of land, existing buildings, new construction, and the acquisition of machinery and equipment with a 10-year useful life. The private sector participant finances 50% of the project cost and takes a first lien on assets pledged as collateral.

The SBA takes a second lien on assets and finances up to 40% of the project cost, up to \$1 million in some cases. Borrowers inject 10% in the form of cash or equity in real estate. For more information on SBA 504 loans, call the California Statewide Certified Development Corporation toll free at (800) 348-6258.

<http://www.sba.gov/services/financialassistance/index.html>

### USDA Rural Development

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The U.S. Department of Agriculture (USDA) sponsors "Business & Industry" guaranteed loans in rural communities. USDA guarantees up to 80% on loans from \$750,000 to \$5 million and up to 70% on loans up to \$10 million. Rates are fixed or variable and negotiated between lender and business. Terms are typically seven years for working capital, 15 years on equipment and 30 years on real estate.

Lenders negotiate their own fees and the USDA charges 2% of the guaranteed amount as a one-time fee. Most types of businesses qualify but the project must be in a rural area beyond the urbanized periphery surrounding a city of 50,000 or more. Communities that have grown beyond 50,000 since the 2000 census may still be eligible.

<http://www.rurdev.usda.gov/ca/index.htm>

## Local Incentive Options

### Local Revolving Loan Funds

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Enterprising communities throughout California have recognized that Revolving Loan Funds (RLF) are important economic development tools. The United States Economic Development Administration, Department of Agriculture and Housing and Urban Development's Community Development Block Grant Program typically capitalize RLFs. Their proceeds often provide critical capital to deserving small businesses, which in turn, provide needed jobs in urban and rural areas throughout California.

Certain businesses may be targeted for assistance and most often the loan will be provided as part of an overall package in the form of gap financing.

RLFs are guided by policies that outline loan or loan guarantee sizes, uses, rates, terms, special conditions and participation levels.

The goals, objectives and priorities of the program are weighed against the portfolio's requirements and loans are approved or denied by a Loan Administration Board. Conventional lending is required, with the RLF taking a second or third mortgage position. Personal and/or corporate guarantees are required.

Contact your local city or county for more information.

### Redevelopment Areas

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Various forms of financial assistance are available through local redevelopment agencies in California. Business may benefit through direct financial assistance, land assemblage, bond issuance and/or construction of public improvements. Redevelopment is funded through incremental property tax revenue increases that are a direct result of private investment and increased property values.

Assistance may be in the form of fee reductions, infrastructure improvements, land cost reductions, mortgage interest reductions, rehabilitation/demolition/clearance of existing structures, and utility tax rebates. Legislation enables the redevelopment agency to provide financing for manufacturing projects under certain conditions. Capital financing or long-term operating leases may also be permitted.

<http://www.hcd.ca.gov/contact.html>

## State Taxes

### Corporation Income Tax

The Franchise Tax Board (FTB) administers an 8.84% tax (known as the Bank and Corporation Franchise Tax) on net corporate income.

California S Corporations are subject to a tax rate of 1.5% on net income.

California uses the unitary method to determine the portion of income reasonably attributable to this state and thus subject to the Bank and Corporation Franchise Tax. Corporations deriving income from sources both within and outside the state are required to report the income of all related business units in a combined report. The combined income derived from all business activity is apportioned to each state or nation using an apportionment formula.

The percentage of property, payroll, and sales attributed to California, versus worldwide operations, is calculated. They are then added together, with double weight given to sales, and divided by four.

This calculation determines the percentage of the unitary or combined income subject to California's bank and corporation franchise tax.

Apportionment Formula = percentage of unitary income subject to California's corporate tax:

$$\frac{\text{California Payroll}}{\text{California Payroll} + \text{California Property} + \text{California Sales} + \text{California Sales}} + \frac{\text{California Property}}{\text{California Payroll} + \text{California Property} + \text{California Sales} + \text{California Sales}} + \frac{\text{California Sales}}{\text{California Payroll} + \text{California Property} + \text{California Sales} + \text{California Sales}} + \frac{\text{California Sales}}{\text{California Payroll} + \text{California Property} + \text{California Sales} + \text{California Sales}}$$

Multinational corporations may make a "Water's Edge" election whereby they exclude most income derived from foreign operations from the combined report. Foreign business units or corporations that have an apportionment percentage in excess of 20% must be included in the combined report. The election lasts for seven years, but is continuously renewed unless a notice of non-renewal is filed by the business.

Effective January 1, 2011 California businesses have to option to select a Single Sales Factor. This allows companies to choose to weigh only sales made in the state – not property or payroll – to determine corporate taxes owed.

<http://www.ftb.ca.gov/>

### Sales and Use Tax

Administered by the Board of Equalization, the State of California imposes a sales and use tax that is 7.25%. In addition local counties and cities can add a percentage to the State tax which is currently averaging 1.00%. The sales tax applies to the gross receipts of retailers from the sale of tangible personal property which is not specifically exempt. Specific exemptions include most food for home consumption and prescription medicine. Sales tax is imposed at the point of sale. It is the responsibility of the retailer, but paid by the purchaser.

Use tax is paid on items purchased for the intent of use in California. Intent of use is defined as used in California within 90 days of purchase. The tax is self-reported and paid at the rate applicable in the jurisdiction in which the item will be used less the tax paid in another state.

Note: Construction materials are not exempt from sales tax and construction labor is not taxed.

<http://www.boe.ca.gov/>

<http://www.boe.ca.gov/cgi-bin/rates.cgi>

## Property Taxes

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County government levies and administers property taxes. The State Board of Equalization performs an oversight role relative to county assessors' activities. Property tax is levied on 100% of assessed valuation. The tax rate is 1% plus a component representing bonded indebtedness for the district in which the property is located on the lien date. The average property tax rate in California is 1.1%, but varies on a parcel basis.

Real property is appraised upon change of ownership or new construction, and then adjusted annually at the lower of 2% or the rate of inflation as measured by the Consumer Price Index. Assessed values on real property may be reduced if the value is higher than the current market value.

Business personal property, including machinery, equipment, and fixtures is taxed at the same rate as real property, but is not subject to any special assessments. Unlike real property, business personal property is reappraised annually. Business owners must file a property statement with the county assessor each year detailing market value.

Finished goods and raw materials are not subject to property tax. Only finished goods held for use are assessed.

<http://www.boe.ca.gov/proptaxes/proptax.htm>

## Unemployment Insurance

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All employers are required to pay into the Unemployment Insurance Fund, which is used to pay unemployment benefits. All new employers are required to pay a rate of 3.4% on the first \$7,000 in wages for up to three years.

### Disability Insurance

There is a maximum of \$434 per employee, per year. (Calculated at the highest UI tax rate of 6.2% x \$7,000)

[http://www.edd.ca.gov/Payroll\\_Taxes/Unemployment\\_Insurance\\_Tax.htm](http://www.edd.ca.gov/Payroll_Taxes/Unemployment_Insurance_Tax.htm)

The State Disability Insurance (SDI) withholding rate for 2011 is 1.2%. The taxable wage limit is \$ 93,316 for each employee per calendar year. The maximum to withhold for each employee is \$1,026.48.

Administered by the California Employment Development Department, this is an employee paid tax.

[http://www.edd.ca.gov/Payroll\\_Taxes/State\\_Disability\\_Insurance\\_Tax.htm](http://www.edd.ca.gov/Payroll_Taxes/State_Disability_Insurance_Tax.htm)

## Workers' Compensation Insurance

California's workers' compensation system is overseen by the Department of Industrial Relations and the Department of Insurance. In 2005, SB899 was signed into law. This landmark reform legislation that overhauled the workers' compensation system and required independent medical reviews, established employer-selected doctor networks and imposed uniform standards. As a result, insurance capital has flowed into the state and new insurers have entered the market.

According to the Department of Insurance, base rates have fallen over 35% since January 2004.

<http://www.insurance.ca.gov/0100-consumers/0060-information-guides/0030-business/>

## Overview of California Tax System

Tax	Base or Measure	Rate	Administering Agency
Corporation Income or Bank and Corporation Franchise Tax	Combined net income apportioned to California.	8.84%	<a href="#">Franchise Tax Board</a>
Sales and Use Tax	Receipts from sales or lease of taxable items.	7.25-9.25%	<a href="#">Board of Equalization</a>
Property Tax	100% of assessed valuation	Avg. 1.1%	<a href="#">Board of Equalization</a>
Personal Income Tax	Taxable personal income.	1.25-10.55%	<a href="#">Franchise Tax Board</a>
Unemployment Insurance Tax (aka Payroll Tax)	First \$7,000 of wages per employee per year.	1.5 – 6.2%	<a href="#">Employment Development Department</a>
Disability Insurance ( <i>employee paid</i> )	Taxable wage limit for withholding of \$90,669.	1.2%	<a href="#">Employment Development Department</a>
Finished Goods, Raw Materials, and Inventory Tax	NONE	NONE	NONE
Workers' Compensation Insurance	Per \$100 of payroll.	Varies based on job classification, workplace safety record, and insurance carrier.	<a href="#">Department of Insurance</a> , <a href="#">Department of Industrial Relations</a>

## California Investment Guide

### Overview of Payroll Tax System

	Unemployment Insurance (UI)	Employment Training Tax (ETT)	State Disability Insurance (SDI)	California Personal Income Tax (PIT)
<b>Who Pays</b>	Employer	Employer	Employee (employer withholds from employees wages)	Employee (employer withholds from employees wages)
<b>Taxable Wages</b>	First \$7,000 of subject wages per employee, per year.	First \$7,000 of subject wages per employee, per year.	First \$93,316 of subject wages per employee, per year.	No limit.
<b>Tax Rate</b>	New employer tax rate is 3.4 percent (.034) for up to three years. Following this period, the tax rate is calculated annually based on each employer's previous experience. The EDD notifies employers of their new rate each December.	Set by statute at 0.1 percent (.001) of UI taxable wages for employers with positive UI reserve account balances and employers subject to CUIC Section 977(c).	The 2011 SDI tax rate is 1.2 percent (.012) (this includes the rate for DI and PFL) of SDI taxable wages per employee, per year. The SDI taxable wages and tax rate are set by the California State Legislature, and may change each year.	Withheld based on the employee's Form W-4 or DE 4.
<b>Minimum Tax</b> (Except if employer is subject under CUIC Section 977(c))	\$434 per employee, per year. (The amount has been calculated at the highest UI tax rate of 6.2 percent [\$7000 x .062])	\$7 per employee, per year (\$7,000 x .001)	\$1119.79 per employee, per year (\$93,316 x .012)	No maximum

## Permit Process

California can readily accommodate expansion and location projects with properly-zoned, infrastructure-rich industrial and commercial sites. Many communities have also adopted state-of-the-art permit streamlining practices, which enable them to efficiently meet a company's project timeline. A number of counties have established Business Environmental Resource Centers that act as one-stop, non-regulatory offices set up to help businesses understand and comply with air quality, hazardous materials/waste, solid waste and water quality regulations. They act as neutral third-party mediators and their services are free and confidential. These communities will assign a project manager to personally guide an applicant through the permit process.

### Overview of Permit Procedure

There are four elements generally required to initiate the permit process. The following is a summary of the steps that a project may follow to become fully permitted in California.

1. An adequate description of the proposed project.
2. A completed application form of usually less than four pages.
3. The appropriate filing fee as determined by the local, state, or federal permitting authority.
4. California law requires development projects to be reviewed for any potential effects on the environment. Impacts on air and water quality, traffic, housing, and land use are generally considered. If there is a significant effect on resources, then further documentation may be required.

The permit process starts at the local level in the planning department. Local permits called "land use" permits are generally required to ensure that a proposed project or business is located in the appropriate region of the city that has been identified for similar use.

These regions, called "zones," are identified in the city or county's general plan, and represent what the local government (on behalf of the citizens of that community) requires of the business to operate in a particular zone. Land use permits ensure that the proposed project use is consistent with the general plan and verify that the proposed project conforms to the overall plan for the local community.

When a proposed business first initiates the permitting process with the local authorities, it automatically begins an environmental review process. This is in the form of an Initial Study, which checks whether or not the project may have an effect (for example, increased demand) on such factors as water supply (yes, no or maybe). Any "yes" and "maybe" impacts may need to be mitigated, depending on the local environmental and political climate. A significant number of "yes" answers may inspire the lead agency (which is in charge of coordinating all permits), to require an Environmental Impact Report (EIR).

The Permit Streamlining Act places lead agencies on strict timelines in which to issue all necessary permits.

[ceres.ca.gov/ceqa/guidelines/intro](https://ceres.ca.gov/ceqa/guidelines/intro)